



Internal Revenue Service Criminal Investigation

# Tax Fraud Alert

## Corporate Fraud

[www.irs.gov](http://www.irs.gov)  
Overview

IRS Keyword: Fraud

Fiscal Year 2004  
[Text Only](#) .htm

### Background

In 2002, President George W. Bush established a Presidential Corporate Fraud Task Force and IRS Commissioner, Mark Everson, is a member. That task force is intended to provide direction for the investigation and prosecution of significant cases involving securities and accounting fraud, mail and wire fraud, money laundering and tax fraud. Most of the corporate fraud investigations are joint efforts involving many federal agencies.

### What is Corporate Fraud?

For IRS, corporate fraud encompasses violations of the Internal Revenue Code (IRC) and related statutes committed by large, publicly traded (or private) corporations, and/or by their senior executives. These schemes are characterized by their scope, complexity, and the magnitude of the negative economic consequences for communities, employees, lenders, investors, and financial markets.

### Why Is IRS Involved in Corporate Fraud?

As financial investigators, IRS Criminal Investigation (CI) Special Agents fill a unique niche in the federal law enforcement community. Because of our financial investigative expertise, CI is involved in most of the regional corporate fraud task forces. CI has exclusive investigatory jurisdiction over criminal violations of the Internal Revenue Code (IRC). Corporate fraud frequently involves violations of the IRC through falsification of corporate and individual tax returns.

Today's sophisticated corporate fraud schemes demand the analytical ability of financial investigators to wade through complex paper and computerized financial records. Due to the increase in the automation of financial records, CI Special Agents are trained in recovering computer evidence. Along with their investigative skills, Special Agents also possess computer investigative skills that enable them to recover financial data that may have been encrypted, password protected, or hidden by other electronic means.

The Sarbanes-Oxley Act provides additional investigative tools to help combat corporate fraud. This Act made provisions in the law, which holds corporate officers accountable for the content of their corporation's income tax returns, financial statements, and their conduct relating to the manipulation of corporate records. The Act imposes stiffer sentences of up to 20 years in prison for the destruction, alteration or falsification of records in order to impede federal investigations and bankruptcies.

## Statistical Data

Criminal Investigation has historically investigated tax evasion and related financial crimes within the business and corporate communities. The tracking of corporate fraud investigation data was previously captured under the category of General Fraud within the CI Management Information System. Statistical data relating to Corporate Fraud is only available as a stand alone category beginning with FY 2004.

## How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	Fiscal Year 2004
Investigations Initiated	107
Prosecution Recommendations	78
Informations/Indictments	57
Sentenced	18
Incarceration Rate*	61.1%
Average Months to Serve	34

\*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

## Examples of Corporate Fraud Investigations

The following examples of fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

### 151 Month Sentence Received

On July 20, 2004 in Akron, OH, Gary Harris was sentenced to 151 months imprisonment; to be followed by 3 years supervised release, and a \$95,000 fine. At trial, the evidence proved the defendants used a maze of trusts and corporations to try to hide approximately \$18 million in income generated by various businesses they controlled, including historic Conneaut Lake Park in Crawford County, Pennsylvania. Between January 1, 1994, and July 8, 2003, they paid little or no taxes on the income earned. Nonetheless, Harris lived lavishly, acquired several homes, a jet way for his ranch in Conneaut, and an antique Mercedes sports car which he claimed was worth \$250,000.

Harris has been in federal custody since his arrest in July 2003. He was convicted of tax evasion for tax years 1987, 1989, and 1990. In addition, between 1998 and 2002, while Harris was in federal prison after convictions for racketeering and income tax evasion, Mr. Kotula and Ms. Schwentker Harris kept Harris' businesses running and continued to operate this illegal conspiracy.

### Bellingham Corporations Sentenced for Tax Fraud; Agree to Pay \$36.5 Million in Back Taxes, Interest, Penalties and Fines

On June 25, 2004, in Seattle, WA, two Bellingham corporations, Alpha Technologies, Inc., (ATI) and G.B. Enterprises, Inc. (GBE), were sentenced for tax fraud offenses. Both corporations had pleaded guilty on April 13, 2004. According to the plea agreement, GBE agreed to pay \$36.5 million in back taxes, interest, and penalties and fines to the IRS. In addition, ATI and GBE each were fined \$500,000 per corporation. GBE was placed on three years of probation and ATI was placed on one year of probation with special

conditions aimed at ensuring that neither corporation commit further tax fraud. According to court records, GBE filed a fraudulent corporate income tax return for the calendar year 1996, and ATI aided and assisted in the preparation and presentation of this fraudulent return. For 1996, GBE reported on its federal tax return sales commissions of \$9,577,418. In truth, \$5,031,490 was improperly included in the claimed deduction. This failure to accurately report only the legitimate business expense relating to commission results in an additional tax due and owing for 1996 of \$1,721,869. For the eight year period beginning in 1994 and continuing through 2001, GBE exaggerated its true sales commissions by \$56,879,852, thereby resulting in an additional tax liability in excess of \$19,564,000, exclusive of civil penalties and interest.

### **President of Construction Company Sentenced**

On June 24, 2004, in Billings, Montana, Ron Omo, president of Big O Construction, Inc., was sentenced to 2 years probation and ordered to pay restitution of \$21,224. In addition, Omo was fined \$10,000 and the Big O Corporation was fined \$40,000. Omo pleaded guilty on February 5, 2004, to charges of disclosing false information on IRS Form 1096, Annual Summary of Information Returns, by not including IRS Form 1099, Miscellaneous Income, evidencing income received by persons driving vehicles for the benefit of Omo and Big O Construction.

Omo established a payment system for 36 truck drivers employed by Big O Construction, whereby the drivers submitted "driving slips" to bill for driving services and other miscellaneous work provided to the company. Omo and Big O Construction paid the drivers based upon the driving slips instead of time cards. Under this system, no benefits, unemployment insurance or other employment taxes were paid in connection with the driving slip payments. No year end summaries "Form 1099's" were issued to the 36 drivers with respect to the work accounted for by "driving slips." By not issuing year end summaries, Omo and Big O Construction assisted the drivers in their non-reporting of income when the drivers filed their individual tax returns. The practice of paying drivers through the use of drivers slips, failing to report the payments to the IRS, and the drivers failing to include the payments on their individual income tax returns, resulted in an aggregate federal income tax loss totaling \$21,224.

### **Chicago Businessman Convicted in Insurance Fraud Trial**

On June 22, 2004, in Chicago, IL, Michael "Mickey" Segal, owner of Near North Insurance Brokerage, was convicted on all 26 counts against him. The conviction came after only 8 hours of deliberation following a six week trial. Segal was convicted of 13 counts of mail fraud, one of wire fraud, seven of making false statements, three of embezzlement, one of tax conspiracy and one of racketeering. Segal was found guilty of looting \$35 million from a Near North Insurance restricted account where customer premiums were supposed to be held for safekeeping. The business was also convicted of 11 counts of mail fraud, seven of making false statements and three of embezzlement. Segal was ordered to forfeit \$30 million dollars and 60% of his business, Near North Insurance Brokerage. The Judge remanded Segal to prison immediately following the forfeiture hearing stating that he was a flight risk. No Sentencing date has been set.

### **San Diego Man Pleads Guilty in Investment Fraud Case**

On May 13, 2004, in San Diego, Paul Scheibe pled guilty to conspiracy to defraud the United States in connection with his role in an investment fraud scheme. Scheibe conspired with others and raised over \$2.5 million through the sale of unregistered securities related to the development of new technologies. Scheibe failed to tell investors that he was permanently barred from selling unregistered securities by the SEC. Scheibe falsely informed investors they would receive 10 times their principal shortly after they made their investment. In actuality, the investors did not receive any funds. The money raised by Scheibe and paid to himself and other conspirators resulted in a \$325,000 tax loss to the government. Six other defendants in this investigation have been indicted and are awaiting trial.

### **Pinellas County Man Sentenced for Tax Evasion Scheme**

On May 7, 2004, in Tampa, FL, William Tiner was sentenced to five years' in prison, to be followed by three years supervised release. Tiner was also ordered to pay restitution to the Internal Revenue Service of \$928,864 and imposed a fine of \$25,000. Tiner was convicted of four counts of income tax evasion and three counts of filing false corporate income tax returns. Tiner purchased the AEGIS trust system promoted out of Chicago, IL. He then used a series of domestic and foreign companies to divert and conceal corporate profits in order to evade the payment of taxes on those profits. As a result of these actions, Tiner failed to report in excess of \$2.5 million in income between 1996 and 1999 and thus evaded the payment of over \$900,000 in income taxes.

### **Lea Fastow Sentenced to Prison in Enron Case**

On May 6, 2004, in Houston, TX, Lea Fastow was sentenced to 12 months in prison followed by one year of supervised release. Fastow pleaded guilty to filing a false federal income tax return. According to the plea agreement Fastow also agreed to cooperate in the Enron investigation. Fastow also relinquished any claim to almost \$30 million in forfeited funds seized by the Enron Task Force in May 2003 for the benefit of victims of fraud at Enron.

### **Economic Development Commission Beneficiary Partner Pleads Guilty to Tax Evasion**

On February 12, 2004, in Christiansted, St. Croix, Gary J. Payne plead guilty to a two count Information charging him with attempt to evade and defeat tax for calendar years 2000 and 2001. Beginning in 2000, Payne participated in a sophisticated scheme designed to disguise his legitimately earned United States income as "wages and partnership distributions" paid to him by a Virgin Islands business that had been issued an Industrial Development Program certificate which granted certain industrial development benefits, including a 90% reduction on individual income tax liability (the Tax Credit). The scheme created the appearance that his income was from a Virgin Islands source or effectively connected to a Virgin Islands business and thus eligible for the Tax Credit. As a result of the scheme, Payne filed his 2000 and 2001 income tax returns with the Virgin Islands Bureau of Internal Revenue claiming falsely to be a Virgin Islands resident and claiming Tax Credits of \$171,364 and \$179,488, respectively. His reported tax liability before the credits totaled \$399,512 for both years. As a result of the credits, Payne only paid \$48,660 of his reported liability to the Virgin Islands and paid no income taxes to the United States as he was required to.

### **Accountant Sentenced on Bank Fraud and Tax Evasion Charges**

On December 1, 2003, in Charlotte, NC, Andres Reyes was sentenced to 57 months in prison, followed by five years supervised release and ordered to pay restitution in the amount of \$3.6 million after pleading guilty to charges of bank fraud, tax evasion and conspiracy. Reyes provided accounting services for a Charlotte construction company and its owner from 1998 through 2000. Utilizing his authority to write checks on the accounts of both the construction company and its owners, Reyes diverted in excess of \$3.6 million of his clients' funds to bank accounts under his control.

### **Executive Sentenced to 20 Years, Ordered to Pay \$92 M in Restitution in Investment Fraud and Money Laundering Case**

On October 31, 2003, in Toledo, OH, J. Richard Jamieson was sentenced to 20 years imprisonment, ordered to serve a three-year term of supervised release, pay \$92,125,491 in restitution, and pay a Special Assessment of \$15,700. Jamieson was found guilty of promotion money laundering, international money laundering, concealment money laundering, spending money laundering, conspiracy to commit money laundering, and conspiracy to commit mail fraud. On January 23, 2002, J. Richard Jamieson was indicted along with 16 other individuals in connection with a scheme to defraud life insurance companies and investors throughout the United States. The Indictment charged that the defendants, including Jamieson, conspired to defraud approximately 2,850 investors in viatical settlements of approximately \$105,000,000. Jamieson was also charged with laundering his profits from the fraud scheme using domestic and foreign trust entities. As a result of this trial and subsequent conviction, there is a special

verdict personal judgment against Jamieson in the amount of \$28,243,980 that was rendered by the jury in his trial and relates to the funds involved in the money-laundering scheme. Jamieson must also forfeit all the assets in over 50 domestic and foreign companies, corporations, partnerships, and trusts, which Jamieson owned and controlled. Additionally, Jamieson was ordered to forfeit his personal assets, including his million-dollar residence, his million-dollar vacation home, the contents of his investment accounts and other personal property. On October 28, 2003, Judge Katz amended his original order of forfeiture to include \$5,675,075 in substitute assets.

### **Former CEO of NASDAQ-Listed Company Pleads Guilty**

On October 15, 2003, in Los Angeles, CA, Sultan Warris Khan, president, CEO, and chairman of the board of directors of NewCom, Inc., pleaded guilty to federal charges related to a scheme to fraudulently inflate the company's revenues. In his guilty plea, Khan admitted that he aided and abetted the making of false statements in quarterly reports that NewCom filed with the U.S. Securities and Exchange Commission. Khan also admitted his part in a scheme with Asif Khan, executive vice president of NewCom, to embezzle more than \$1 million from NewCom and launder the proceeds of their fraud through a law firm's client trust account.

For more summaries, visit [www.irs.gov](http://www.irs.gov) and enter Keyword: Fraud.

### **Where Do You Report Suspected Tax Fraud Activity?**

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.